2010-11 Budget Workshop

California Community Colleges
Chancellor's Office

College Finance and
Facilities Planning
Division

2010-11 Budget Overview

- Passed by Legislature October 8, 2010
- Signed by Governor October 8, 2010
- Latest budget in state history - 100 days overdue
- Surpassed previous record of 85 days set in 2008
- Required 26 separate pieces of legislation

How It Was Accomplished

- Budget gap was estimated at $93 billion
- The gap was closed through a combination of spending cuts, increased revenue, federal funds, asset sales, funding shifts, and borrowing
- Governor vetoed additional spending to increase the size of the "rainy day fund"
**Multiple Budget “Solutions”**

- Budget cuts of $7.8 billion
- Federal funds estimated at $5.4 billion
- Delayed tax breaks totaling $1.2 billion
- Sale of state office buildings nets $900 million
- Borrowing and funding shifts add $2.7 billion

**Community Colleges Budget Overview**

- $126 million for enrollment growth
- Nc COLA
- New $129 million payment deferral
- Nc increase in student fees

**Governor’s Vetoes**

- $35 million for partial restoration of categorical program reductions.
- $25 million for Economic and Workforce Development programs to support workforce training programs.
- These funds would have been paid in July 2011, putting additional stress on the 2011-12 budget.
Budget Detail - Growth

- Enrollment Growth funded at 2.21%
- Additional 26,000 FTEs
- Partially restores workload reduction of 3.3% which districts experienced in 2009-10

Impacts of 2009-10 Funding Cuts

- Budget cuts resulted in course sections being decreased by up to 20% at some districts
- 300,000 unfunded students statewide (headcount), with 138,000 more turned away with no classes
- Statewide priorities remain workforce training, transfer, and basic skills.

Budget Detail - COLA

- COLA was originally proposed to be negative in Governor's January budget (-0.39%) based on the statutory index
- Legislature rejected the negative COLA and went with zero instead.
Categorical Funding

- In general, categorical funding remains at the level established in the 2009-10 State Budget.

- One new item is an additional $20 million for the SB 70 Career Technical Education program, bringing the total to $68 million.

Categorical Flexibility

- CTE funding is not subject to flexibility.

- Funding levels remain locked-in at last year's level.

- The exception is for funds provided for statewide/regional projects under the Economic and Workforce Development Program, Academic Senate, and Transfer.

New Deferrals for 2010-11

- $129 million in new inter-year deferrals

- $793 million in continuing inter-year deferrals - funds deferred from January through June 2011 to July 2011 - now $831 million total

- $300 million in intra-year deferrals - $200 million deferred from July to October and $100 million from March to May.
Mandated Programs

- $9.5 million for current-year mandate claims
- $22.3 million for mandate claims in prior years
- 5 mandates suspended in the current year
- A Mandate Working Group will be established to consider changes to education mandates.

Budget Challenges

- Reliance on questionable assumptions means mid-year adjustments may be necessary
- Districts will require further borrowing to absorb the latest deferral
- Borrowing costs already incurred could have saved an estimated 1,200 course sections
2012-13 Budget Workshop
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2012-13 Budget

- AB 1464 signed by Governor June 27, 2012
- For 2nd consecutive year passed on time and without any Republican votes
- Prop 35 doesn't guarantee good budgets, but they get done on time
The Big Picture

- Total General Fund expenditures = $91.3 billion
- $4 billion more than in 2011-12, but still $1 billion below the 2007-08 fiscal year...
- ...and this assumes the November ballot initiative passes

The Big Picture

- In January, the budget gap was estimated at $9.2 billion. At May Revision, the gap was revised to $5.7 billion
- The adopted budget closed the gap through a combination of spending cuts, funding shifts, and the assumption of voter approval for November ballot initiative to raise new revenues

Multiple Budget Solutions

- Budget cuts of $8.1 billion
- Increased revenues of $6 billion
- Funding shifts, payment delays and other miscellaneous solutions of $2.5 billion
Community Colleges:
The Sunny View

- No base reductions
- $50 million in growth/restoration
- $159.9 million in deferral buy down (reduces deferrals from $561 million to $801.1 million)

Community Colleges:
The Sunny View

- SB 361 left in place
  - Governor's proposal to repeal FTEs-based funding system was rejected by the Legislature
- No policy changes to categorical programs
  - Governor's consolidation proposal was rejected by the Legislature
- No COLA
  - Last COLA was 2007-08

Community Colleges:
The Sunny View

- "Good Neighbor" fee increases to double the resident rate ($50) in 2012-13 and will be triple the rate ($150) in 2013-14 and thereafter
- Mandates Block Grant created. Districts can elect to receive $18 per FTE for compliance with mandates in lieu of filing claims (further detail below)
- Full hold harmless protection from shortages in RDA-related revenues
Categorical Funding

- No changes to flexibility provisions established in 2009-10 (flex authority continues through 2014-15)
- Funding levels unchanged
- The exception is for the Student Financial Aid Administration, which has increased to $71 million

Community Colleges Budget

- General Apportionment Revenues
  - $5.5 Billion
- Categorical Revenues
  - $411.3 million

General Apportionment Revenue

- State General Fund $2.8 Billion (51%)
- Local Property Taxes $2.3 Billion (42%)
- Student Fees $374 Million (7%)
Taxes and Triggers

- Approved budget assumes passage of November ballot initiative (Proposition 30).
  - Would increase sales tax by ¼ percent for 4 years
  - Increase income taxes for those making no less than $150,000 per year for 7 years (increases range from 1% to 3%)
  - Would raise approximately $5 billion annually from 2012 through 2016 (somewhat less in 2017 and 2018).
  - Prop 30 and Prop 38 (Munger) cancel each other out – you cannot have tax provisions of both. Higher vote total prevails if both gain 50% or more of the vote.

Taxes and Triggers

- If Prop 30 is not approved by the voters, automatic budget reductions are triggered.
  - $6 billion in total cuts
  - $5.4 billion in Proposition 98
  - $250 million each from UC and CSU
  - $50 million from Developmental Services
  - $20 million from local police department grants
  - $10 million from the Department of Forestry and Fire Protection
  - $17.6 million from various other programs

CCC Triggers

- This is potentially the second consecutive year that CCCs will face trigger cuts. Cuts are far more drastic in 2012-13, though.
  - Lose $50 million in growth/restoration
  - Lose $399.9 million in deferral buy downs
  - Additionally, CCCs would absorb a base reduction of $398.6 million (7.3% workload reduction)
  - Further, failure of Prop 30 would slow growth in the guarantee – 2013-14 would be a very tepid year
Mandates:
New Block Grant

- Same mandated programs in place as in 2011-12
- Districts can, if they choose, use the claims process, as in earlier years
- Now will also have option of opting in to a block grant program
- Participating districts will receive $48 per FTE

Mandates:
New Block Grant

- Compliance monitored as part of district's annual independent audit
- Is a year-to-year choice – districts can opt in one year and opt out the next year
- Choice to opt in does not affect earlier claims
- Notify our office of your choice to opt in by September 30, 2013

Do You Feel Lucky?

- Triggers - Polls show Prop 30 with majority support, but not by comfortable margins
- Cash crunch - Flow of General Fund is a trickle early in year
- RDAs - Statutory protection, but what if the state is broke? Not protected from other risks (LPT, fees, etc.)
- Prop 30 revenues - Balloon payment in June, but is based on % of revenues, not a fixed appropriation.
Board of Governors, July 2012

Budget Update: 2012-13 Enacted Budget

For the second year in a row, the state enacted an on-time budget. For the second year in a row, the approved budget relies on midyear trigger cuts to make the plan financeable if revenues fail to meet estimates. While the 2011-12 budget approved trigger cuts as a check against overly optimistic revenue assumptions, the 2012-13 budget relies on voter approval of a November ballot initiative to fund essentially a stay-the-course budget for public education. If the ballot initiative fails, the axe will primarily fall on education to keep expenditures aligned with revenues.

The approved budget (AB 1464) solves what was identified by the Administration as a $15.7 billion problem, as scored at the May Revision. To close the gap, the Budget Act enacts spending reductions totaling $8.1 billion, assumes approximately $6 billion in new revenues through voter approval of the ballot initiative, and $2.5 billion in other solutions (e.g., fund transfers, loan repayment delays, etc.). These solutions close the identified gap and provide for a reserve of $948 million. Assuming successful passage of the ballot initiative, state General Fund expenditures are estimated at $91.3 billion, which is about $4 billion more than the 11-12 fiscal year but $11 billion lower than the 2007-08 fiscal year.

Taxes and Trigger Cuts

Once again, the Legislature and the Administration have returned to the trigger cut well. In order to avoid nearly $6 billion in painful midyear reductions (the vast majority in education), voters will have to approve the Governor's proposed tax increases at the November ballot. If approved, the Schools and Local Public Safety Protection Act would raise income taxes on high-income taxpayers for seven years and would raise the state sales tax by one-quarter percent for four years. It’s estimated that the measure would raise about $8.5 billion in revenues for the 12-13 fiscal year.

If voters reject the initiative, the following reductions will be implemented as of January 1, 2013:

- $5.4 billion from Proposition 98 (more detail below).
- $250 million from UC.
- $250 million from CSU.
- $50 million from Developmental Services.
- $20 million from grants to Local Police Departments.
- $10 million from the Department of Forestry and Fire Protection.
- $17.6 million from various other programs, including flood protection, state parks, and the Department of Justice.

Education Highlights

Proposition 98 — For the 2012-13 fiscal year, K-14 Proposition 98 is funded at a total of $53.6 billion ($36.8 billion in General Fund). Successful passage of the November ballot initiative leads to an overall Prop 98 increase of $2.9 billion. This provides sufficient finding to keep levels of school funding relatively flat, pay down approximately $2.2 billion in deferrals, and fund the Quality Education
Investment Act (QEIA) program within the minimum guarantee. The Department of Finance notes that successful passage of the ballot initiative would lead to a projected total growth of $17.2 billion over the next four years. While this would not represent dramatic growth, at least the K-14 would slowly begin to reverse years of harmful reductions.

**K-12** – By and large, this is a stay the course budget for K-12. The new funding provided if the ballot initiative passes will primarily go toward paying down deferrals (approximately $2.1 billion). The budget also augments categorical funding for charter schools ($53.7 million) to reflect the growth in that population. The budget also assumes the K-12 General Fund obligations will be offset by $1.3 billion in assets previously held by Redevelopment Agencies. A new mandates block grant would provide districts with $28 per unit of average daily attendance (ADA) in lieu of submitting reimbursement claims to the State Controller. If the ballot initiative fails, K-12 would experience programmatic reductions totaling approximately $4.8 billion. This would involve loss of the deferral buy down funding and an additional cut to general purpose funding. Districts would be authorized to negotiate a reduction of up to 15 days from the calendar in the 2012-13 and 2013-14 fiscal years to achieve savings.

**UC/CSU** – The Budget provides some new flexibility for both UC and CSU by eliminating some traditional set-asides and restrictions and by not identifying enrollment targets. A trailer bill agreement would also provide $125 million to each segment in the 2013-14 fiscal year if student fees are not raised in 2012-13. This deal is contingent upon successful passage of the ballot initiative. If the initiative fails, the UC and CSU would experience midyear reductions of $250 million each, and would not receive the $125 million payments in 2013-14 even if fees were held steady.

**Cal Grants** – The budget achieves savings in the Cal Grants program by restricting eligibility to institutions that 1) have a graduation rate of at least 30 percent and 2) have a cohort default rate no worse than 15.5 percent (these requirements will not apply to institutions – such as community colleges – in which fewer than 40 percent of students avail themselves of federal loans). Through a line-item veto, the Governor also imposed a 5 percent across-the-board reduction on maximum awards, so, for example, Cal Grant B access awards have been reduced from $1,551 to $1,473. Various additional restrictions and award reductions for students attending private, for-profit schools were approved that will begin to phase in the 2013-14 fiscal year.

**California Community Colleges**

The major components of the 12-13 CCC budget are:

- No new reductions unless the November ballot fails.
- $50 million in growth funding to help restore some of the FTES lost in recent years.
- $159.9 million to buy down system deferrals.
- No change to categorical programs, as the Governor’s consolidation proposal was rejected.
- No repeal of SB 361, as the Legislature also rejected the Governor’s proposal to revise our general apportionment system.
Board of Governors, July 2012

- Trailer bill language increases the fees for "good neighbor" nonresident students to 200% of the resident rate ($92 per unit) in 2012-13 and three times the resident rate ($138 per unit) thereafter.
- Approval of a new mandates block grant. Districts opting in to the block grant will receive $28 per FTES to cover compliance costs incurred during the 2012-13 fiscal year. Otherwise, districts may go through the normal claiming process for reimbursement at a later date. Districts must make their selection known to the Chancellor’s Office by September 30.
- Full hold harmless protection from any shortages in RDA-related revenues, both in the current year and budget year. This alleviates a major risk to CCC budgets, as shortages in these funds ($116M in 11-12 and $341M in 12-13) could otherwise have resulted in massive deficits.

As noted above, if the November initiative fails, K-14 education is slated for a trigger cut of nearly $5.4 billion. The CCCs would lose the $209.9 million in new funding approved in the budget ($50 million for growth/restoration and $159.9 million for deferral repayments) and would take an additional base cut of $338.6M (nearly 7.5%). Similar to language included for base cuts made in the 2009 and 2011 Budget Acts, this base cut will be allocated as a workload reduction with legislative intent that community college districts will prioritize courses relating to transfer, career technical education, and basic skills.

Clearly, this trigger cut would be a devastating hit to our colleges, and districts need to budget carefully to account for this potential midyear reduction.

**Conclusion: A Year of Risk**

The state’s economic recovery is slow and that fact is reflected in the 2012 Budget Act. All hope for avoiding funding reductions is reliant upon the will of the voters in November. The risk of midyear trigger cuts is certainly the system’s most dire risk, but it is by no means the only one.

While we have statutory protection from RDA-related property tax shortages, any significant shortage would create a budget problem for the state that could result in additional CCC reductions. Troublingly, the state is pushing a major cash crunch onto the CCCs. CCCs will receive only about 40 percent of the General Fund cash through the first 5 months of the 12-13 fiscal year as was received during the first 5 months of the 11-12 fiscal year. Even if the ballot initiative passes, districts will receive about 40 percent of their annual General Fund money in June. This makes managing cash flow a difficult juggling act even under the best of circumstances. Of course, districts should be prepared for midyear trigger cuts, but they will also need to have sufficient reserves available to ride out the slow flow of state General Fund allocations and handle other risks and emergencies that may arise at either the state or local level.